

# 2009 Annual Budget Process

- January--Resident Phone Survey and Neighborhood Association Budget meeting
- February 17--Council Study Session: City Council/Management Team Budget Review Session
- February 27-10 City Manager's 2010-2014 Five Year Forecast and Revenue Projections
- March 12--2nd Annual District 6 Budget meeting
- Tomorrow--09-10 Mayor's March Budget Message Released
- March 17--Council Preliminary Discussion of Mayor's March Budget Message
- March 24--March Budget Message: Final Review/Approval by Council/Public Hearing
- April 20,--Proposed Capital Budget and 2010-14 CIP Released
- May 1,--09-10 Proposed City Operating Budget/Fees Released
- May 6,--Planning Commission Study Session – Capital Budget and CIP
- May 6-15--Council Study Sessions: 09-10 City Proposed Budgets/Fees and Charges Report
- May 12--Initial Public Hearing: 09-10 Proposed City Capital/Operating/Fees Budgets
- May 18--09-10 City Council Budget Proposals due to Mayor's Office
- June 5,--09-10 Mayor's June Budget Message Released
- June 15--Final Public Hearing 09-10 Proposed City Capital/Operating Budgets/Fees Report
- June 16--2009-10 Mayor's June Budget Message/Capital: Final Review/Approval by City Council
- June 23--09-10 City Capital/Operating Budgets & 09-10 Fees & Charges Report: Adopted by City Council

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# ANNUAL BUDGET PROCESS OVERVIEW

## Community Based Budgeting Process

- With adoption of Reed Reforms, budget process expanded to solicit and incorporate community input
- Telephone survey
- Neighborhood Association Priority Setting Session
- City Council Priority Setting Session
- Budget Study Sessions and Public Hearings

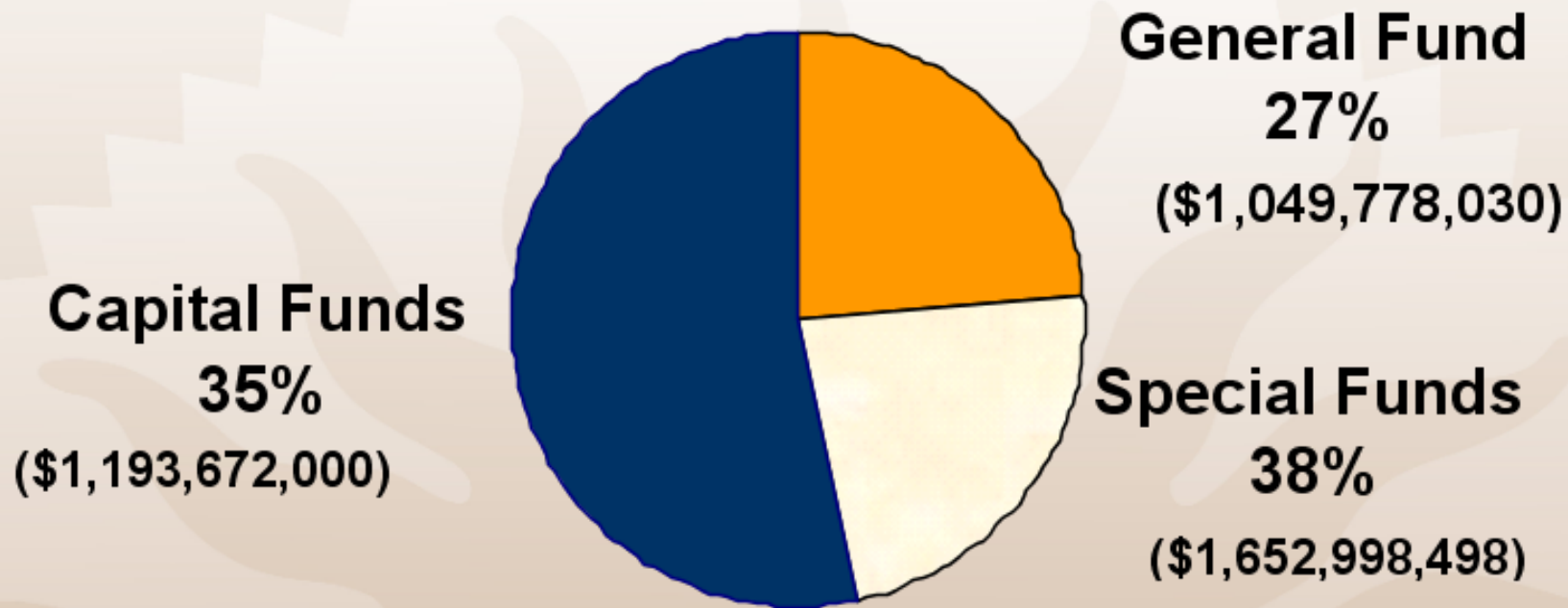
# BUDGET OVERVIEW

## City of San José Budget

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<b>2008-2009 ADOPTED CITY BUDGET:</b>	<b>\$3.28 billion*</b>
<b>TOTAL NUMBER OF FUNDS:</b>	<b>112</b>
<b>TOTAL NUMBER OF EMPLOYEES:</b>	<b>6,985</b>

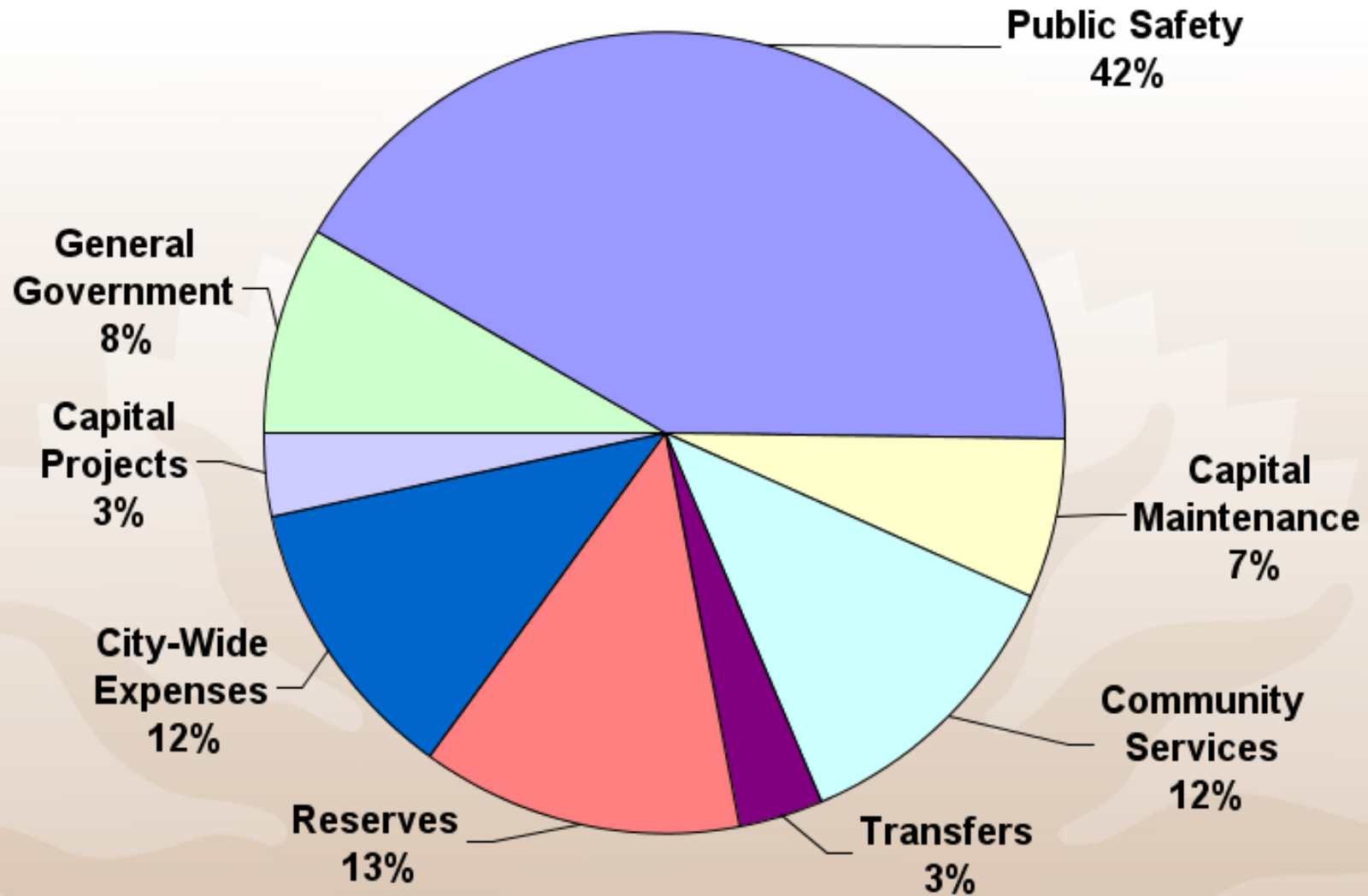
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\* An adjustment of \$618,551,959 is necessary to arrive at the \$3.28 billion net 2008-2009 Adopted City Budget to avoid the double-counting of transfers, loans, and contributions between City funds.

# GENERAL FUND OVERVIEW

## Uses of the General Fund



Total Uses: \$1,049,778,030

2008-2009 Adopted Budget

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# 2010-2014 General Fund Structural Deficit Projection (03/05/09 in millions)

	09-10	10-11	11-12*	12-13*	13-14*	Total
<b>Projected Base Shortfall** (Feb 2009 Forecast)</b>	\$61.2	\$36.7	\$4.9	(\$6.5)	(\$10.1)	\$86.2
<b>Unmet/Deferred Infrastructure &amp; Maintenance***</b>	\$5.9	\$5.9	\$5.9	\$5.9	\$5.9	\$29.5
<b>Total Incremental Deficit</b>	\$67.1	\$42.6	\$10.8	(\$0.6)	(\$4.2)	\$115.7
<b>Total Cumulative Deficit</b>	\$67.1	\$109.7	\$120.5	\$119.9	\$115.7	\$115.7

\* Funding for cost-of-living salary increases not factored into the last three years of the Forecast. These increases are being treated as a resource allocation policy decision.

\*\* Includes City's share of General Fund annual required contribution for retiree health care benefits and committed additions previously agreed upon by Council, such as addition of 25 officers annually through 2011-12 and operating and maintenance funding for capital projects coming on line.

\*\*\* Does not address one-time needs of \$457 million in the General Fund (\$825 million all funds).

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# Budgeted Total Compensation Costs

comparison 2000-2001 and 2008-2009

- Base Payroll \$416,010,420 -- \$593,382,252
- Retirement \$63,054,083 -- \$142,018,712
- Medical \$24,856,910 --\$61,018,913
- Other Benefits \$12,069,194 --\$19,249,501
- Total \$515,990,607-- \$815,669,378

Headcount 7012 (\$73.5K) & now 6985(\$116.7K)

2,663 earned over 100K

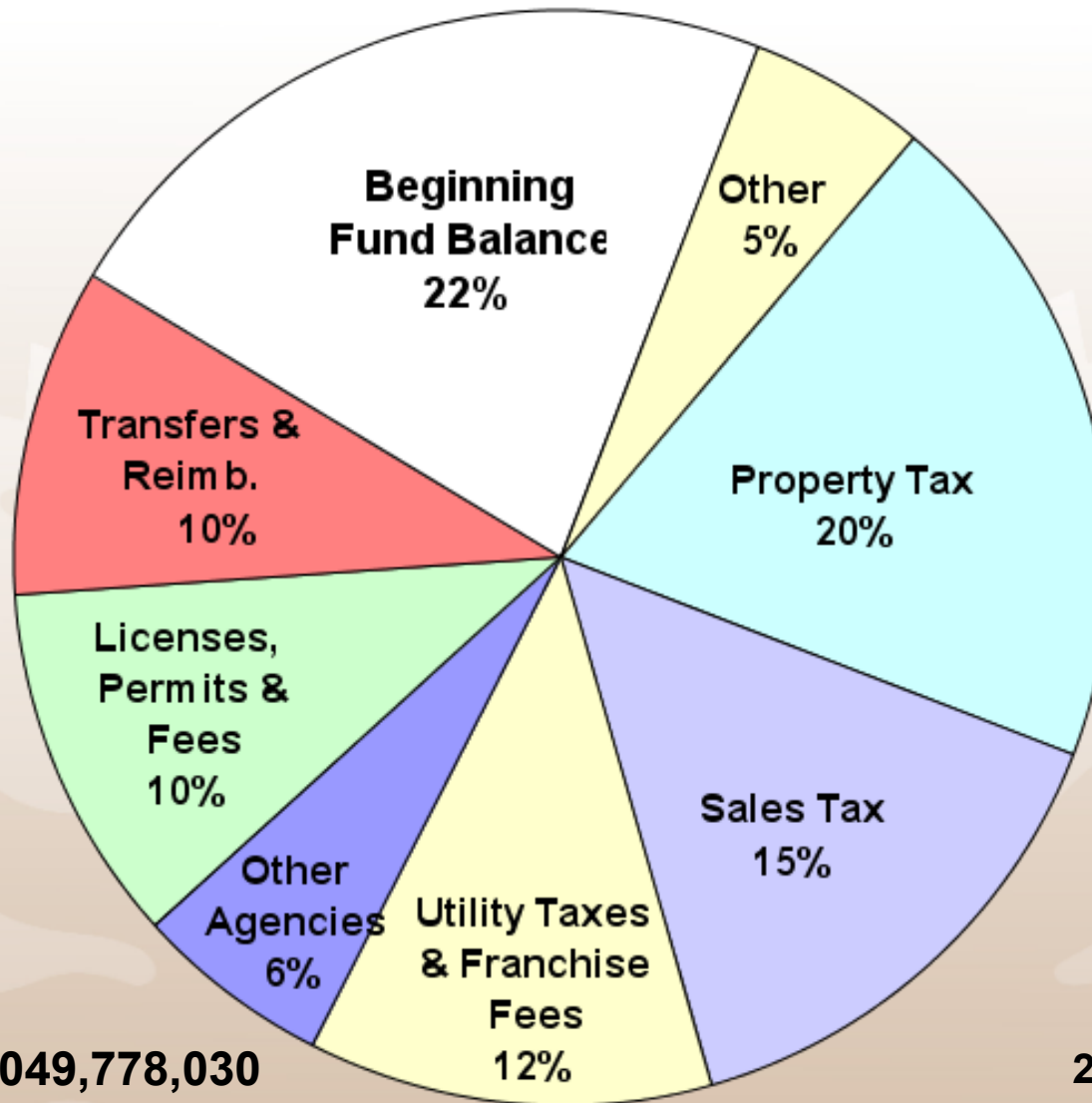
**58% increase**



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# GENERAL FUND OVERVIEW

## Sources of General Fund Revenues



Total Sources: \$1,049,778,030

2008-2009 Adopted Budget

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# Property Tax



On a \$10,000 Property Tax Bill

\$5200 School District



\$1200 County



\$1200 RDA (Split Schools & County)

\$900 Community College

Evergreen Valley College

\$600 Special Districts

(Water, Fire, Sanitary, Resource Conservation)

\$900 City of San Jose



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An aerial photograph of a city street scene. In the foreground, a large, rectangular construction site is visible, enclosed by a wooden retaining wall. The site is mostly empty, with some dirt and construction equipment. To the right of the construction site is a large parking lot filled with many cars, mostly white and silver. In the background, there are several buildings, including a large, multi-story building with a red roof. The overall scene is a mix of urban development and construction.

**Fairmont Hotel Property Assessed Value**

**1985 = \$1.3 Million appraisal**

**\$13,000 in Prop Tax = \$1,170 for SJ**



**Current Assessed Value = \$112.5 Million**

**Tax Increment Differential = \$111.2 Million**

**Before \$1170 for SJ now \$1.1 Million for RDA**



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# Options to spend the \$1,100,000

20% off the top for Affordable Housing

20% off the top to the County

Economic Development?

-More jobs & more sales/utility tax

Buy land for a park or build community center?

-Net loss as city must pay to maintain new facility.

However quality of life trade off.

Historical Preservation?

-Slight Economic Development as may promote business

Retain History & Architecture

# Sales Tax

9.25% Sales Tax

6.50% State

.75% County

.50% VTA (.625% future)

.50% County Public Safety Fund

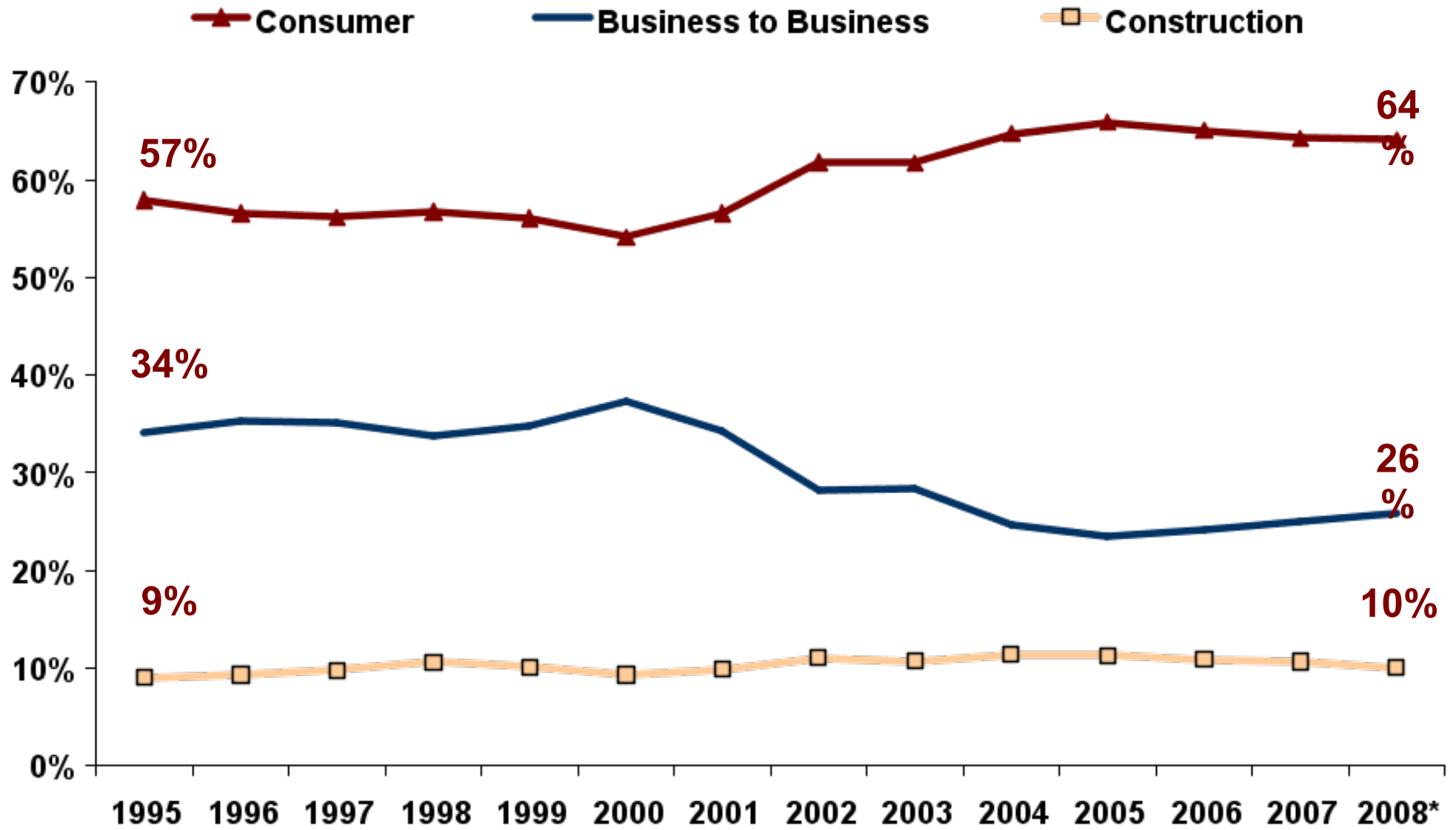


Spend \$100 on a taxable item city gets \$1.

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# Consumer Share of Sales Tax Base Increased From 27% to 64%



## Composition of Sales Tax to City of San Jose

Source: Thru 3rd Quarter 2008, MBIA

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Oliverio



# Highest Revenue Impact: Retail Development

## Anchor Retail Facilitation, Shopping Center Expansion, Auto Row Strategy



San Jose Market Center

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The Plant

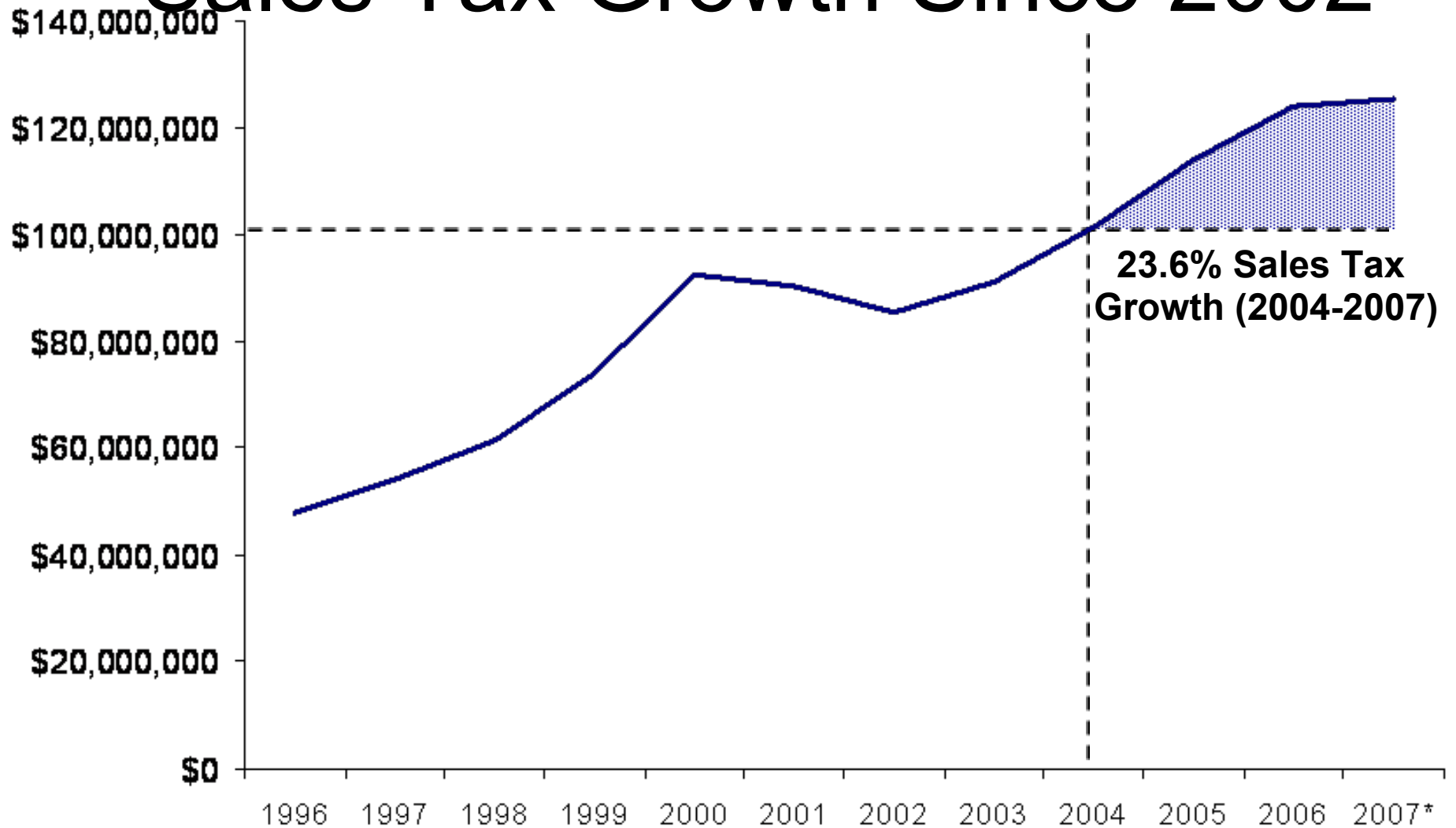
# Sales Tax from Recent Projects in good economic times

	Average Annual Sales Tax Revenue to SJ
Big Box Retailer	\$1,000,000
Automobile Row	\$5,000,000
Valley Fair	\$5,000,000
Eastridge	\$2,000,000
Oakridge	\$2,500,000
Santana Row	\$2,500,000
Downtown Core	\$2,500,000
	\$20,500,000

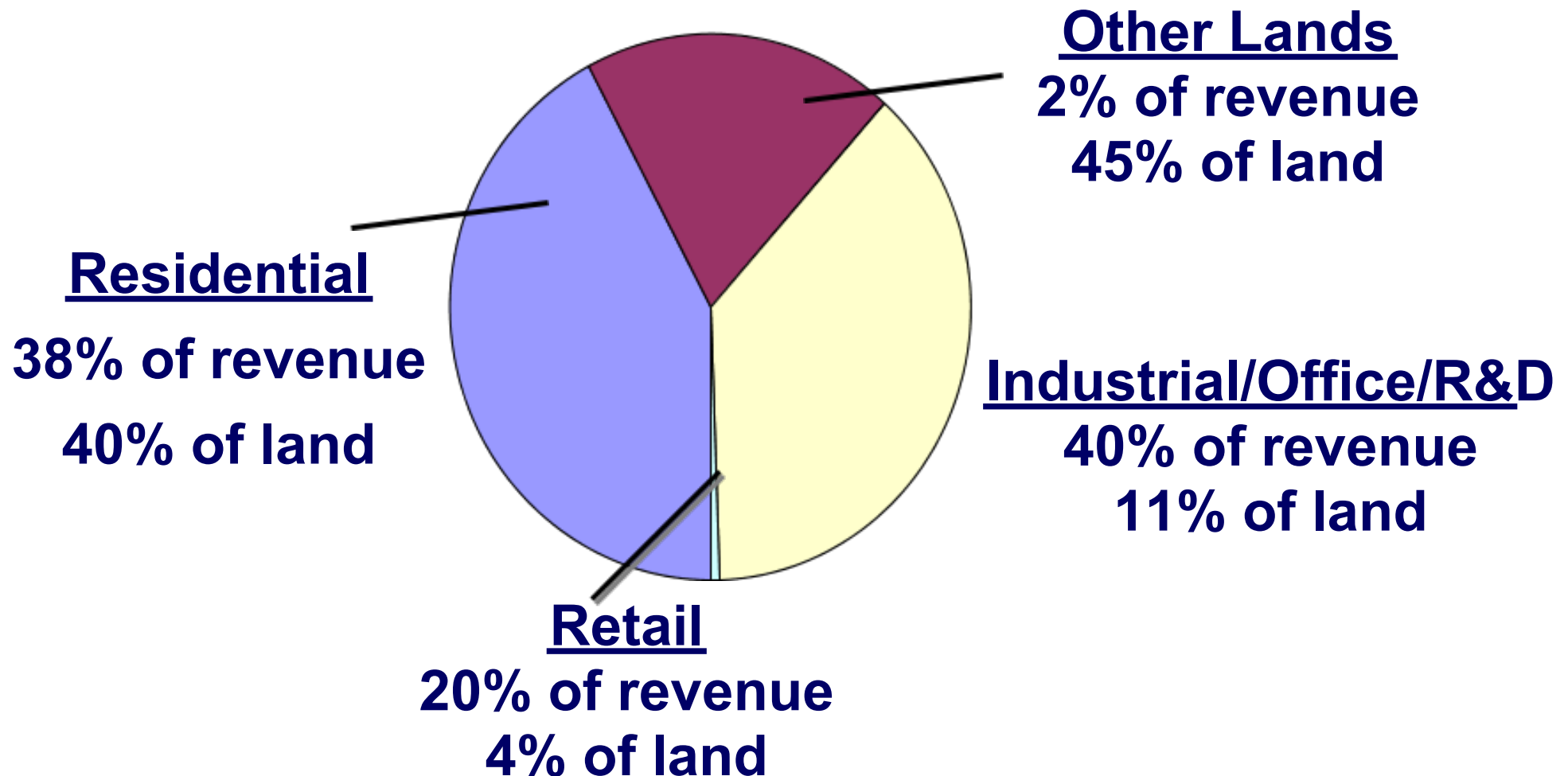
Recent Additions 2007-2008	
Big Box Retailer	\$1,000,000
The Plant	\$1,200,000
Home Improvement Retailer	\$300,000
Market Center (Coleman	\$850,000
	\$3,350,000



# Economic Recovery: Sales Tax Growth Since 2002



# Employment & Retail Uses Occupy 15% of SJ Land, but Contribute 60% of Tax Revenue



# How to Close a \$60M+ budget shortfall?

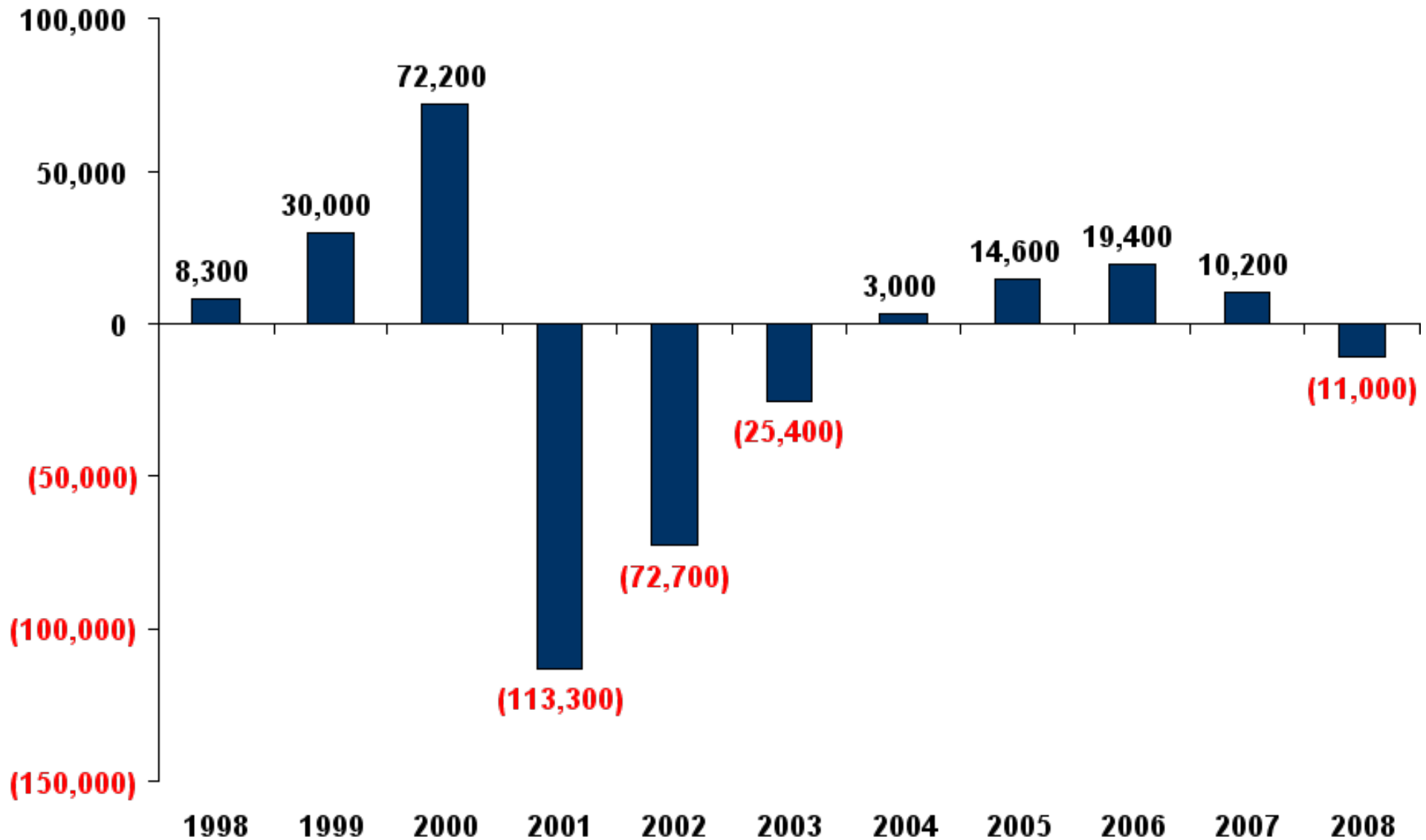
- Build 15 Valley Fair Malls (750 acres)\$67M-70M
- Build 24 Oakridge malls (1200 acres)\$72M
- Build 36 Santana Rows (3300 acres)\$72M
- Build 14 Capitol Auto Rows
- 5 Large format retailers equals the same tax generation of all 9 RDA Neighborhood Business Districts combined
- One Santana Row equals the same sales tax generation of the Downtown Core RDA area
- 2 large format retailers equals the same sales tax generation of San Jose's 50 largest sales tax generating restaurants

# Retail Development Challenges

- Lack of available sites (4% of land dedicated to retail)
- Community resistance to new retail tenants
- Limited dedication of resources slows projects through development process
- Policy decisions choosing residential over retail

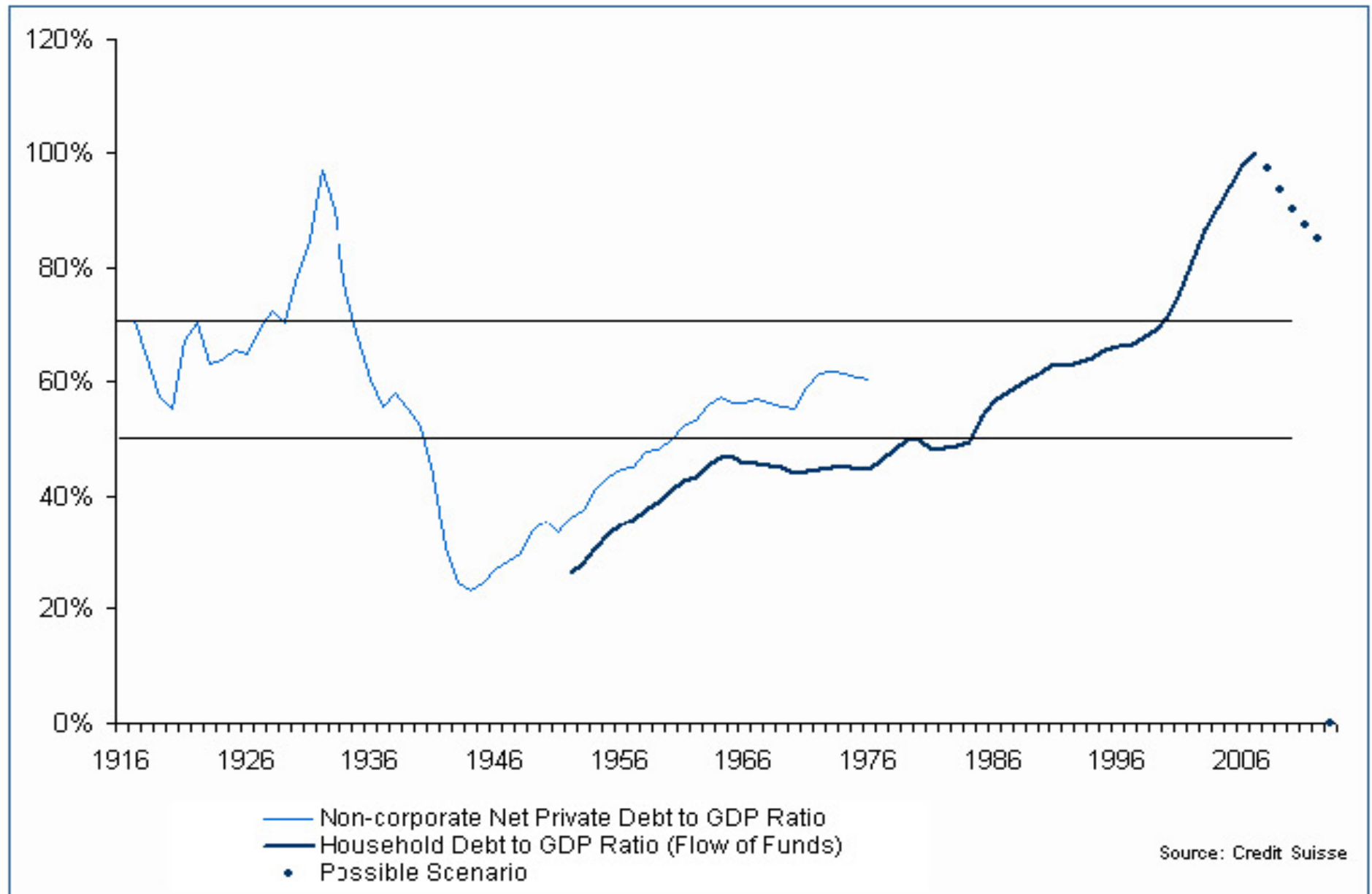
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# Annual Job Growth Turned Negative Again



9.4% unemployment Approx 5,000 less jobs Q1 2009

# Household Debt vs GDP

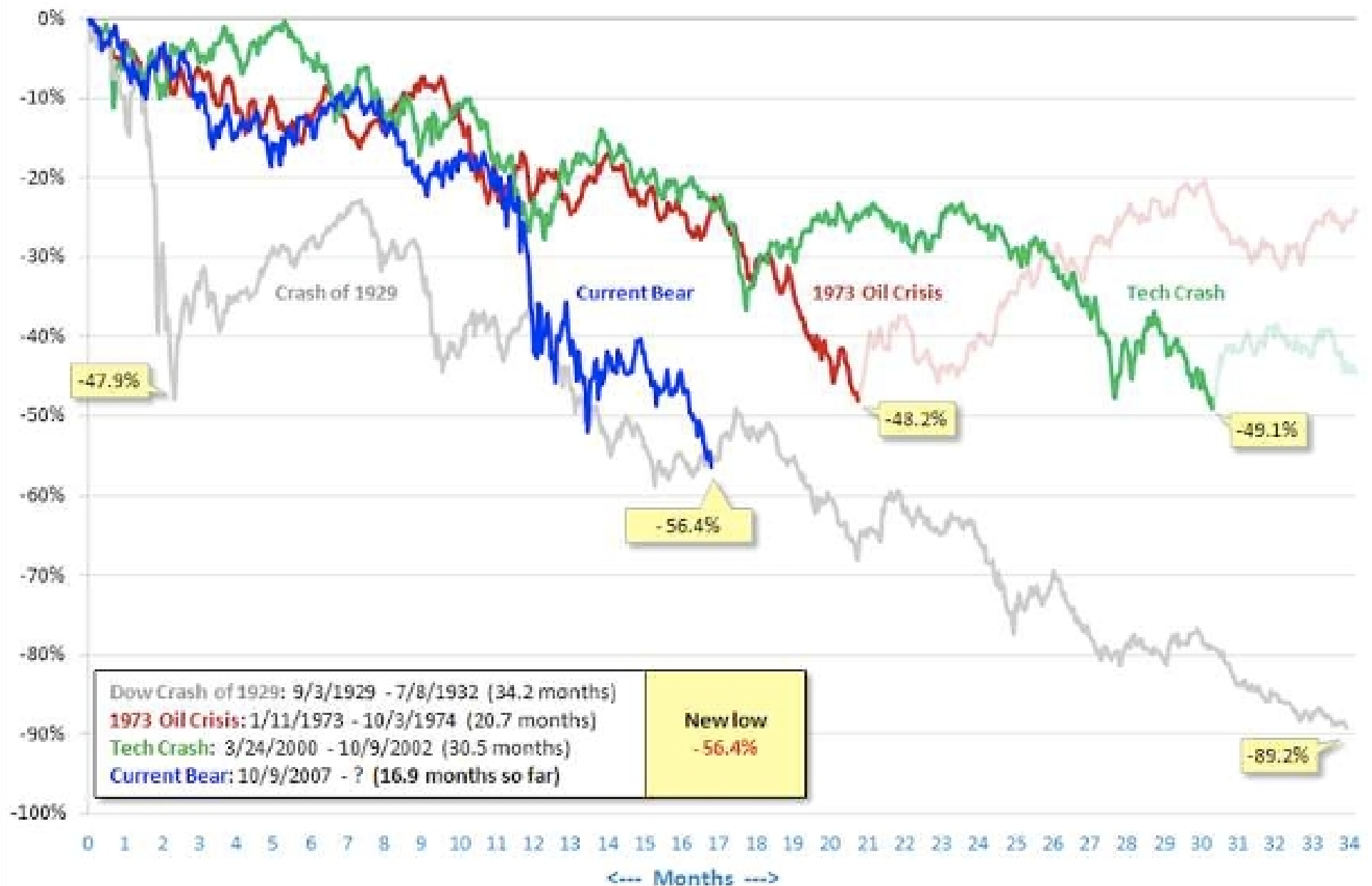


## Four Bad Bear Markets

dshort.com

3/5/2009

Dow in 1929-1932; S&P 500 in 1973-74, 2000-02, 2007-09





# Retail Contraction-Discretionary Spending is Down

220,000 stores predicted to close nationwide this year

Malls are filled with discretionary spending

Mervyns-Done

Circuit City-Done

Linen & Things-Done

Sharper Image-Done

Bombay Co-Done

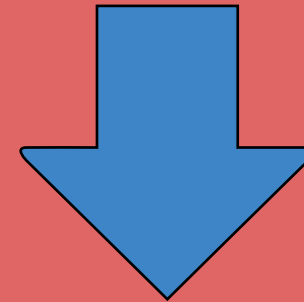
Whitehall Co. Jewelers-Done

Office Depot-closing 112 stores

Starbucks-closing 1000 stores

Shane Co.-Bankrupt

Announced store closures: Macy's, Sears, GAP, Eddie Bauer, Pier1, Foot Locker, Home Depot, Talbots, Blockbuster, Ethan Allen, Neiman Markus, Saks 5th Ave, Zales....



# Alternatives

- Service Reductions Immediate
- Raise Taxes 12-18 months
- Service Delivery Model 1-4 yrs
- Cost Savings Immediate to 2 yrs
- Economic Development 2-5 yrs

# Service Reductions

- Community Facility closures
- Reduction in library branch days
- Decrease park maintenance
- Longer response time for code enforcement, graffiti removal, fewer streets paved, etc...
- Reduction in long-range planning efforts

# If employees did not receive any general wage increase or took a pay reduction, how much money would be saved?

	1% Pay Decrease		1.5% Pay Decrease		5% Pay Decrease	
	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds
<b>Citywide*</b>	\$5.53M	\$7.5M	\$8.29M	\$11.25M	\$27.65M	\$37.5M
<b>Sworn Only*</b>	\$3.16M	\$3.16M	\$4.74M	\$4.74M	\$15.8M	\$15.8M
<b>Non-Sworn Only*</b>	\$2.37M	\$4.34M	\$3.55M	\$6.51M	\$11.85M	\$21.7M

**If employees did not receive any step increases or merit increases for 2009-2010, how much money would be saved?**

	Freeze Step and Merit Increases	
	General Fund	Total Funds
Citywide*	\$7.92M	\$10.81M
Sworn Only*	\$4.29M	\$4.29M
Non- Sworn Only*	\$3.63M	\$6.52M

# How much money would it save if we had a mandatory/unpaid 40 hour furlough/closure?

	40 Hour Unpaid Furlough	
	General Fund	Total Funds
Citywide*	\$10.64M	\$14.4M
Sworn Only*	\$6.08M	\$6.08M
Non- Sworn Only*	\$4.56M	\$8.32M

# How much money would it save if everyone took one holiday unpaid?

	Unpaid Holiday	
	General Fund	Total Funds
Citywide*	\$2.13M	\$2.88M
Sworn Only*	\$1.215M	\$1.215M
Non- Sworn Only*	\$912,000	\$1.666M



# Revenue Strategy

- Raise Sales Tax 1/4 cent \$34M
- Plastic & Paper Bag Tax 25 cents \$2.5M
- Ensure City Fees Cover Costs \$2-3M
- Raise Biz Tax \$2-13M
- False Alarm Fee \$500-900K
- Increase Parking Fines by \$10=1M
- Raise Utility Tax 1% \$17.57M or \$11.8M
- Restructure leases w/ Non-Profits \$750K
- Double Storm Sewer Fee \$6 to \$12=\$6M

# Costs Savings & Shifts

- Shift Tobacco Money to GF \$9-10m
- Delay hiring new officers \$3.1M
- Reduce rate of increase to comp \$7-10m
- Increase time to reach Max Comp \$1.9m
- Reduce comp for popular jobs \$.7-1.7m
- Increase Medical co-payments \$1-3m
- Reduce Sick Leave Payout \$1.8m(\$13M)
- Postpone Opening New Facilities \$2.4M
- Eliminate Crossing Guards \$1.5-1.9M

# Service Delivery Model Changes

- Rigorous Asset Management \$4.3-13.3
- Revise Competition Policy \$8-13m
- More Civilians for Police & Fire \$.5-1.5
- Change Minimum Staffing for Fire \$5M
- Employee Suggestions \$0-500K
- Eliminate Binding Arbitration
- Red Light Running Video Cameras

# PUBLIC PRIVATE COMPETITION POLICY PROCESS

# 19 Steps



8 - Perform RFI to establish market  
9 - Assess RFI

6\*  
1\*

\* = optional task

# Competition Policy Takes 93 Weeks

CM Reach Out/Decision to Proceed	10 weeks
Meet & Confer w/ Bargaining Units	2 weeks
Perform Internal Comp Assessment	6 weeks
Implement Improvements as Needed	12 weeks
Measure/Assess Improvements	4 weeks
10% Cost Savings Assessment	4 weeks
Perform RFI to establish Mkt	6 weeks
Assess RFI	1 week
Perform Competition Training w/ Employees	4 weeks
Develop RFP	6 weeks
Advertise/Conduct RFP Process	10 weeks
Evaluate Proposals/Select Supplier	6 weeks
Financial Analsys, 10% cost savings assess	2 weeks
Develop agreement/seek Council Approval	10 weeks
Transition of Service	10 weeks
Add 15 more steps to process?	

# Spend Wisely

- RECS Software

- Original request was \$1,600,000 No ROI
- After asking questions and staff rising to challenge w/ ROI?
- \$205,000
- Cost avoidance of \$1,395,000 from Original Proposal
- Next: Switch from Microsoft to Google save \$2-3M
- (License fees, servers, VPN, less PC's & energy use)
- 

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# Three Public Golf Courses

## ● Los Lagos Golf Course 2995 Tuers Rd

- \$24m to build out
- Operates at a loss each year for last 10 yrs
- Outstanding debt \$21.7M
- 200 acres
- Examine city assets
  - \$2,260,000 for Nets
  - Feb 26, 2008





# Maximize Assets?

- **Hayes Mansion Conference Center & Hotel**

- Outstanding Debt \$65.7M (030109)
- Operates at a loss each year \$4M
- 214 Rooms, 2 Restaurants, 10 Conference Rooms
- Sell as Hotel \$30M
- Sell as Senior Assisted Living possibly more than \$65M
- 4M Seniors moving to 12M by 2040



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# Maximize Assets

- **Old City Hall-17.5 acres**

- Sell for housing, retail, commercial?
- Zero Rent today
- Millions to retrofit to use as city offices
- Directly across from Light Rail station
- Turn into Museum?
- Give to County for cheap because they need the space?

○



# Other Ideas

- Wellness programs to slow Healthcare costs-Does not reduce cost.
- Hire person only to do Grant Writing
- Buy San Jose campaign-\$100K budget requires \$10M in sales to break even.
- RDA money only on Econ Dev
- Reduce Budget Reserves
- Increase fines for Code Enforcement

# Other Ideas Cont

- Defer ALL capital projects
- Capital projects should include O&M
- Assessment Districts by Neighborhood

## Resident Ideas from Jan 24th Neighborhood Assoc meeting at City Hall

- "Cut four paid holidays"
- "Reduce City employee overtime."
- "Freeze all wages across the board."
- "Retirement benefit on base salary only."
- "Freeze pay increases for 5 years.",
- "New employees-New benefit package"
- "Reduce management salary by 5%."
- "4 week cap on accrued vacation"

# Resident Ideas from Jan 24 cont..

- "Private/public partnership for libraries; use volunteers"
- "Public/private partnerships in all neighborhood services; outsource where possible."
- "Private/public partnerships, volunteers, and outsourcing."
- "Private sponsorship for police mounted unit."
- "Salary freeze for over 100K salaries"

# Resident Ideas from Jan 24 cont...

- Sell old City Hall and adjacent land"
- "Make firemen EMS"
- "Charge the County jail for Fire response to all medical emergencies."
- "Don't have fire truck and ambulance go to medical calls."
- "Increase green fees for all three golf courses."
- "Cost recovery from Police response to multi-family units owned by unresponsive landlords"
- "Increase citation fees for parking on the lawn & vehicles parking on Street Sweeping Days."

# Resident Ideas from Jan 24th

- "No accrued sick time to be paid in retirement bonus"
- "Eliminate Executive pay-no paid personal days."
- "Salary freeze for over 100K salaries"
- "Request during bargaining agreement process that police/fire reduce slightly their benefits."
- "Start budget year with zero-based budget. Justify all jobs and Department costs. Decrease Across the board. implement furlough. Contract out based on need."



# Resident Ideas from Jan 24th

- "Focus on economic development"
- "Identify and increase all user fees where cost identification is possible."
- "Implement fines and/or give fire greater enforcement on business violations."
- "Eliminate two Council positions by combining districts"
- "Reduce the 2% art set aside for capital projects to 1.2%

# Yet more resident ideas Jan 24

- "Reduce number of firemen per truck from 4 to 3 which is the County level."
- "Hire non-police/fire officers to do administrative jobs at lower cost to reduce PD/Fire staffing costs."
- "Move from City employees under Team San Jose to Team San Jose Employees"
- "Eliminate Team San Jose and civil servants - administrative positions."
- "Hire 25 Police Officers by lateral transfers with \$20K incentive."

## Brainstorming from Labor Union meeting Feb 26

- A tax on the ballot to fund operations for every city department.
- Use reserve money to get through the recession.
- Invest reserve money in stock market
- Expand card club tables-Garden city & Bay101
- Make programs closer to 100% cost recovery
- Go into the electric utility business
- Make commercial real estate pay park fees
- Tax passengers on future BART & High Speed Rail

## Brainstorming from Labor Union meeting Feb 26

- Promote "Stay"cation
- Tell people to shop in San Jose first.
- Cut Mayor & Council salary
- Heavy hand on penalties for Fire Safety permits
- Tax banks that own abandoned homes
- Use car sharing program instead of buying new vehicles
- Automate paper reports by Police so more efficient
- City should own its own Football team like Green Bay, Wisconsin
- Turn off street lights in when business closes

[www.atwork.org](http://www.atwork.org) & [www.mybudgetidea.com](http://www.mybudgetidea.com)

# Future Liabilities



- Unfunded Retirement Liability \$344.7M  
City Retirement Contributions-\$134M (142M)
- Parks, Community Center, Streets, Code Enforcement, Library, Planning budget is \$133M
- Retirement \$63,054,083 -- \$142,018,712
- \$79M increase in 7 years (more then doubled)
- Pension fund down \$1.2 Billion in 2008 & \$171M 2009
- Self-Insured
- Actuary Report in June will increase annual contribution

# Future Liabilities



- Unfunded Medical Liability \$1.4Billion
- Medical inflation and free for life with longer lifespan
- Like making minimum payment on credit card
- Consider new benefits for new employees?
- New employees would have different set of benefits.  
Current employees would remain whole. Approx one third (2,000) employees retiring in next 5 years.
- Savings would be over time and city and employee would pay less.

# What do I suggest?

Councilmember Oliverio's  
suggestions how to  
manage **Taxpayers Money**;  
Now and Moving Forward



# What San Jose **Can** Start Doing Now

## Planning Policy

Maintain Employment Lands

Less Housing: Build housing only where residential is zoned

Stage gates for future housing.

X amount of jobs for X amount of housing.



# What San Jose Can Start Doing Now

## Change Employee policy *instead* of Service Delivery

- Reduce Sick Leave Payout (\$1.8M)
- Health Care Plan Changes (\$3M)
- 10 week cap on accrued vacation (Future Savings)
- Pay Freeze for EVERY CITY EMPLOYEE for 3 years  
(for example, 1%=(5.5M), 2%=(11M), and 3%=(16.5M))
- All staff making over 100K take a 5% pay cut (17M)
- All Staff making under 100K take a 2% pay cut (5M)
- 2 day furlough for non-sworn employees (\$3.33 M)
- 1 day furlough for Sworn (Public Safety) (\$2.43)
  - Reduce Comp for Popular Jobs \$.7-1.7M

# What San Jose can start doing now (cont'd)

- Limit accrued vacation hours
- Competition Policy
- (Let comp policy stand without 15 new regulations)
- 
- Use Technology for costs savings (\$2M)
- No Step or Merit increases (\$7.9M)
- False Alarm Fee (\$500K)
- Close Central Warehouse(\$850K)
- Negotiate City Leases (\$750K)
- Allow more Card Tables per State law (\$5.5M)
- Shift 20% of HNVF money to General Fund (\$2M)

# 2010-2012

- Continue, if necessary, with no City Employee Raise
- Sell one of three Golf Courses
- 
- Sell Hayes Mansion (save \$4M/yr)
- Restructure leases for city property (\$750K)
- Sell Old City Hall
- Raise Utility Tax (\$11.43M A YR) for police only
- Bond or parcel tax to pay for street repairs (\$100M)

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# Total Amount Saved

1st year savings: Approximately \$61M

Did not count Technology, City property leases, assumed 2% average pay increase & only \$700K for lowering comp on popular jobs.

# Total Amount Saved

2nd year savings: Approximately \$21.4M

Continued wage, step and merit freeze, selling Hayes Mansion, assumes 500K out of 750K for city leases)

Raise Utility Tax 1% on electricity, gas & water not telephone  
\$11.43M to hire 75 police officers, 15 civilians for police station  
to get sworn officers in the neighborhoods.

Bond or Parcel Tax to fix streets ONLY  
Example \$50 a year parcel tax is \$13M  
or do a General Obligation Bond

# Your comments & questions

- Brevity is beautiful
- Let everyone get a chance
- One Question per turn please
- Come around again for more questions